



Monthly Economic Update

February 2003



David Platt, Chief Economist
Montgomery County Department of Finance

This report is a monthly update to the Quarterly Economic Indicators Report, both of which are available on the internet @ <http://www.co.mo.md.us/services/finance> For questions, please call (240) 777-8866.

➤ **Economic Conditions.** Fourth quarter GDP was revised upward from 0.7% to 1.4% according to preliminary data from the Department of Commerce. The upward revision was attributed to greater consumer spending on nondurable goods and a smaller decline in wholesale and retail trade inventories than previously reported.

However, there are a number of factors that have restrained the growth of real GDP yielding a subpar performance during the early stages of this economic expansion. They include consumer confidence, payroll employment, the stock market, and business spending. Both the national and regional measures of consumer confidence declined dramatically in February to their lowest levels since October 1993. Such pessimism increases a household's desire to repay debt and rebuild savings rather than to spend and borrow, which have been the main factors to the recent economic expansion.

➤ **Inflation and Energy Prices.** Inflation in the region and the nation accelerated in January. The overall inflation rate for the Washington-Baltimore metropolitan region increased 3.3% from January 2002 to January 2003 while the core inflation rate increased 2.8% over the same period. The acceleration in the overall rate was attributed to rising energy prices, especially gasoline and home heating oil. In January, the price of regular gasoline increased to \$1.52 per gallon from \$1.14 per gallon in January 2002 – a 32.9% increase. Home heating oil increased to \$1.57 per gallon from \$1.26 per gallon in January 2002 – a 24.9% increase attributed to a reduction in supply of oil and an increase in demand due to the harsh winter. With energy prices continuing their acceleration in February – an additional increase of 9.7% for gasoline and an additional 15.8% for home heating oil – overall inflation in the region will accelerate in the near term. With home prices continuing their remarkable increase, the “core” inflation rate for the region also was higher in January at 2.8% compared to the national rate of 1.9%.

➤ **Real Estate.** The real estate market in the County during January provided conflicting trends. Housing prices continued to accelerate with average and median prices increasing 14.2% and 16.6%, respectively, above January 2002 levels. The increase in home prices in the County continued to be offset by the dramatic decline in home mortgage rates. Since early 2000, 30-year conventional mortgage rates declined from their high of 8.52% in April 2000 to 5.92% in January.

Monthly construction data for the County reveal a much stronger residential estate market compared to the non-residential market. Both residential permits and construction increased in January compared to January 2002. An increase of 34.5% in the number of residential permits issued in January compared to the same month last year indicates the prospect of a mild construction boom in the homebuilding over the next few months. The value of new residential construction also increased in January for the first time since August of last year.

While residential construction showed positive gains in January, the level and value of non-residential construction did not. Non-residential permits declined almost 9% in January compared to the same month last year. That decline follows a drop of 11.6% in the number of non-residential permits in 2002. The drop in the number of non-residential permits is matched by a greater decline in the value of non-residential construction. With the increase in vacant office space in the County and throughout the immediate Washington metropolitan region, the office construction boom that occurred during 2001 and 2002 may decline dramatically in 2003.

➤ **Labor Market.** The unemployment rate continues to be a bright spot in the County. Compared to the metropolitan region, the State, and the nation, the County's unemployment rate of 2.2% continued to remain below the region and the State averages of 3.1% and 3.8%, respectively, and significantly below the national rate of 6.5%.

SELECTED ECONOMIC INDICATORS	Reporting Period	Current Period	Prior Year's Period	Year To-Date		2002
				2003	2002	
Leading Indicators						
National	January	-0.1%		-0.5%		-0.1%
Washington MSA	December ('02)	-0.4%		n/a		-0.6%
Coincident Indicators						
National	January	0.2%		0.8%		0.8%
Washington MSA	December ('02)	-1.9%		n/a		-2.4%
Consumer Confidence Index						
National	February	-18.8%		-25.9%		-14.7%
South Atlantic Region	February	-10.6%		-19.2%		-9.6%
Consumer Price Index						
All Items						
National	January	2.6%		2.6%		1.6%
Washington - Baltimore CMSA	January	3.3%		3.3%		2.4%
Core CPI						
National	January	1.9%		1.9%		2.4%
Washington - Baltimore CMSA	January	2.8%		2.8%		2.9%
Retail Trade						
National (sales - not adjusted)	January	4.6%		4.6%		3.3%
Maryland (tax)	December ('02)	1.4%		n/a		1.6%
Montgomery County (tax)	December ('02)	0.6%		n/a		0.9%
Employment						
National	January	135,907,000	134,177,000	135,907,000	134,177,000	136,485,000
- Percent Change		1.3%		1.3%		-0.3%
Washington PMSA (at place)	December ('02)	2,791,600	2,822,900	2,787,700	2,794,300	2,787,700
- Percent Change		-1.1%		-0.2%		-0.2%
Montgomery County (resident)	December ('02)	485,521	475,083	487,114	477,701	487,114
- Percent Change		2.2%		2.0%		2.0%
Montgomery County (payroll)	June ('02)	457,946	456,983	450,820	448,854	447,744
- Percent Change		0.2%		0.4%		4.9%
Unemployment						
National	January	6.5%	6.3%	6.5%	6.3%	5.8%
Maryland	December ('02)	3.8%	4.2%	4.4%	4.1%	4.4%
Washington PMSA	December ('02)	3.1%	3.9%	3.7%	3.1%	3.7%
Montgomery County	December ('02)	2.2%	2.6%	2.8%	2.3%	2.8%
Construction						
Project Cost - Montgomery County						
Total (\$ thousand)	January	\$61,659	\$106,065	\$61,659	\$106,065	\$1,595,801
- Percent Change		-41.9%		-41.9%		9.5%
Residential (\$ thousand)	January	\$47,881	\$44,520	\$47,881	\$44,520	\$744,066
- Percent Change		7.5%		7.5%		-4.2%
Non-Residential (\$ thousand)	January	\$13,778	\$61,545	\$13,778	\$61,545	\$851,735
- Percent Change		-77.6%		-77.6%		25.0%
Building Permits (Residential)						
National	January	121,584	115,139	121,584	115,139	1,728,556
- Percent Change		5.6%		5.6%		5.6%
Maryland	January	2,124	2,271	2,124	2,271	29,213
- Percent Change		-6.5%		-6.5%		0.5%
Montgomery County	January	374	278	374	278	5,013
- Percent Change		34.5%		34.5%		-1.5%
Building Permits (Non-Residential)						
Montgomery County	January	145	159	145	159	1,858
- Percent Change		-8.8%		-8.8%		-11.6%
Real Estate						
National						
Sales	January	6,090,000	5,960,000	6,090,000	5,960,000	5,566,000
- Percent Change		2.2%		2.2%		5.1%
Median Price	January	\$160,400	\$150,300	\$160,400	\$150,300	\$158,300
- Percent Change		6.7%		6.7%		7.1%
Montgomery County						
Sales	January	953	909	953	909	16,030
- Percent Change		4.8%		4.8%		3.1%
Average Price	January	\$333,723	\$292,322	\$333,723	\$292,322	\$320,418
- Percent Change		14.2%		14.2%		16.5%
Median Price	January	\$260,000	\$223,000	\$260,000	\$223,000	\$255,275
- Percent Change		16.6%		16.6%		18.7%